

DIRECT TESTIMONY

of

LESLIE PUGH

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Approval of an Increase and Adjustment of
Rates and Charges for Water Utility Service

Northern Hills Water and Sewer Company

Docket No. 03-0402

August 28, 2003

1 Witness Identification

2 **Q. Please state your name and business address.**

3 A. My name is Leslie Pugh. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am an Accountant in the Accounting Department of the Financial Analysis
7 Division of the Illinois Commerce Commission ("ICC" or "Commission").

8 **Q. Please describe your professional background and affiliations.**

9 A. I earned a Bachelor of Arts degree in Accounting from the University of Illinois at
10 Springfield. I am a Certified Public Accountant, licensed to practice in the State
11 of Illinois. Prior to joining the Staff of the Illinois Commerce Commission ("Staff"),
12 I was engaged in the practice of public accounting.

13 **Q. Have you previously testified before this Commission?**

14 A. Yes, I have.

15 Purpose of Testimony

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. The purpose of my testimony is to propose adjustments to Apple Canyon Water
18 Company's ("Company") rate base and operating statement concerning cash
19 working capital and plant acquisition adjustment. I also recommend that the

20 Commission make a determination regarding the original cost of the Company's
21 plant-in-service balance at December 31, 2003.

22 **Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?**

23 A. Yes. I prepared the following schedules, which show data as of, or for the test
24 year ending December 31, 2002:

25 Adjustment Schedules

26 Schedule 2.1 - Adjustment to Cash Working Capital

27 Schedule 2.2 - Adjustment to Plant Acquisition Adjustment

28 **Q. What is the purpose of the letters that follow the Schedule numbers?**

29 A. The letters identify the Schedules as either S, for sewer, or W, for water.

30 Adjustment to Cash Working Capital

31 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.1, Adjustment to Cash**
32 **Working Capital.**

33 A. ICC Staff Exhibit 2.0, Schedule 2.1, Adjustment to Cash Working Capital
34 presents my proposed adjustment to cash working capital for both sewer and
35 water for the removal of real estate taxes and to incorporate the effects of other
36 Staff-proposed adjustments. The Company calculated its cash working capital
37 requirements using the 1/8th method based on the operating expenses presented
38 in its filing. Staff has no objection to the use of this method. However, Staff has
39 removed real estate taxes in those instances where payment is deferred for more
40 than a year.. In addition, Staff has proposed adjustments to operating expense

41 components of the cash working capital proposed by the Company. Therefore,
42 cash working capital has changed accordingly as shown on Schedule 2.1 to
43 reflect Staff's proposed adjustments to expenses. This adjustment should be
44 updated to reflect the operating expenses approved by the Commission.

45 Adjustment to Plant Acquisition Adjustment

46 **Q. Please describe ICC Staff Exhibit 2.0, Schedule 2.2, Adjustment to Plant**
47 **Acquisition Adjustment.**

48 A. ICC Staff Exhibit 2.0, Schedule 2.2, Adjustment to Plant Acquisition Adjustment
49 presents my proposed adjustment to remove the acquisition adjustment for both
50 sewer and water as reflected on Schedule C of the Company's initial filing. In
51 Docket No. 98-0045, the Company's last rate case, the Commission adopted
52 Staff's recommendation to decrease the Company's rate base for the purchase
53 acquisition adjustment by \$16,519 for water operations and \$13,960 for sewer
54 operations. The Company agreed to record the adjustments on its books and
55 records but failed to comply with the Commission's order. The amount as shown
56 on Schedule C of the present filing is different from the amounts in Docket No.
57 98-0045 due to annual amortization. My adjustment removes the amortized
58 amount as previously ordered by the Commission from the rate base calculation.

59 Original Cost Determination

60 **Q. What do you propose regarding an original cost determination?**

61 A. I recommend that the Commission include the following provision in this
62 proceeding's order:

63 **It is further ordered that the original cost of plant at December 31,**
64 **2002, as reflected on Northern Hills Water and Sewer Company,**
65 **Schedule C, column Per Books, is unconditionally approved as the**
66 **original cost of plant for consideration of 83 Ill. Adm. Code 615.**

67 Requirements for preservation of records are associated with an original cost
68 determination. 83 Ill. Adm. Code 615, The Preservation of Records of Water
69 Utilities, Appendix A, contains requirements for the preservation of specific
70 records. For example, journal vouchers and journal entries which support plant
71 accounts are to be maintained "7 years prior to date as of which original cost of
72 plant has been unconditionally determined or approved by this Commission in"
73 an original cost determination proceeding or a rate case. Therefore, I recommend
74 the Commission make the suggested finding regarding the original cost of the
75 Company's plant as of December 31, 2002.

76 Conclusion

77 Q. Does this conclude your prepared direct testimony?

78 A. Yes.

Docket No. 03-0402
 ICC Staff Exhibit 2.0
 Schedule 2.1 - S

Northern Hills Water & Sewer Company-Sewer Operations
Adjustment to Cash Working Capital
 For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 35,337	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 5
2	General Expense	7,804	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 6
3	Taxes Other Than Income	2,365	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 9
4	Less Property Taxes	<u>(1,516)</u>	Company response to Staff data request DLH-1.02, W/P [e]
5	Operating Expenses Subject to Working Capital Allowance	\$ 43,990	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>5,499</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	5,868	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (369)</u>	Line 7 less line 8

Docket No. 03-0402
ICC Staff Exhibit 2.0
Schedule 2.1 - W

Northern Hills Water & Sewer Company-Water Operations
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 15,044	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 5
2	General Expense	7,144	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 6
3	Taxes Other Than Income	2,186	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 9
4	Less Property Taxes	(1,402)	Company response to Staff data request DLH-1.02, W/P [e]
5	Operating Expenses Subject to Working Capital Allowance	\$ 22,972	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	2,872	Line 5 times line 6
8	Working Capital Allowance Per Company	3,222	Company Schedule C, Column As Adjusted
9	Adjustment	\$ (350)	Line 7 less line 8

Northern Hills Water & Sewer Company - Sewer Operations
Adjustment to Plant Acquisition Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Plant Acquisition Adjustment per Staff	\$ -	
2	Plant Acquisition Adjustment per Company	12,698	Company response to Staff data request LAP-1.09 and LAP-1.10
3	Adjustment	<u>\$ (12,698)</u>	Line 1 less line 2

Northern Hills Water & Sewer Company - Water Operations
Adjustment to Plant Acquisition Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Plant Acquisition Adjustment per Staff	\$ -	
2	Plant Acquisition Adjustment per Company	<u>15,140</u>	Company response to Staff data request LAP-1.09 and LAP-1.10
3	Adjustment	<u>\$ (15,140)</u>	Line 1 less line 2